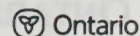


ONTARIO FINANCES

1998-99 SECOND QUARTER

QUARTERLY UPDATE - SEPTEMBER 30, 1998



Ministry of Finance

Fiscal Summary (\$ Millions)

	Actual 1997-98	1998-99		
		Budget Plan	Current Outlook	In-Year Change
Revenue	52,488	53,390	54,214	824
Expense				
Programs	43,607	45,219	45,711	492
Restructuring and Other Charges	1,595	194	561	367
Total Programs Expense	45,202	45,413	46,272	859
Capital	2,523	2,337	2,344	7
Public Debt Interest	8,729	9,214	9,161	(53)
Total Expense	56,454	56,964	57,777	813
Reserve	--	650	--	(650)
DEFICIT	3,966	4,224	3,563	(661)

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HIGHLIGHTS

1997-98 PUBLIC ACCOUNTS

- ◆ The Public Accounts, released September 28th, reported the 1997-98 audited actual deficit at \$3,966 million, down \$1,237 million from the interim forecast in the 1998 Budget. The improvement was due to \$378 million in higher revenues than anticipated in the Budget and net lower expense of \$859 million, mainly related to a change in the accounting treatment of the Province's three-year commitment to fund debt service costs for school board capital debentures.

1998-99 IN-YEAR PERFORMANCE

DEFICIT OUTLOOK AT \$3.6 BILLION

- ◆ The 1998-99 deficit is projected at \$3,563 million, down \$661 million from the 1998 Budget Plan and \$657 million from the First Quarter Ontario Finances.

REVENUE AT \$54.2 BILLION

- ◆ The revenue outlook, at \$54,214 million, is up \$824 million from the Budget Plan and up \$820 million from First Quarter Ontario Finances, mainly due to higher Personal Income Tax revenue.

EXPENSE AT \$57.8 BILLION

- ◆ Total expense, at \$57,777 million, is up \$813 million from the Budget Plan and First Quarter Ontario Finances, largely reflecting an additional expense of \$307 million related to the change in accounting treatment of debt servicing costs for school board capital debentures; a net \$367 million increase in the provision for Restructuring and Other Charges; and an additional \$220 million for start-up and insurance costs for Canadian Blood Services, partially offset by a reduction of \$145 million in capital and operating expense for last winter's ice storms, as these costs have been expensed in 1997-98.

RESERVE APPLIED TO DEFICIT REDUCTION

- ◆ The reserve, designed to protect the fiscal plan against unforeseen risks, such as adverse changes in the economic outlook, and its impact on revenues and public debt interest costs, has been applied to deficit reduction. Based on the improved revenue outlook for 1998-99, the \$650 million reserve will not be needed.

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ONTARIO FINANCES

DETAILS OF IN-YEAR CHANGES

FISCAL PERFORMANCE

REVENUE

The current revenue outlook of \$54,214 million is \$824 million more than the \$53,390 million projected in the 1998 Budget Plan and \$820 million above the projection in the First Quarter Ontario Finances. The increase is mainly due to higher Personal Income Tax (PIT) revenue. The PIT gain is partially offset by lower revenue from the Government of Canada and Other Non-tax Revenue.

- ◆ Personal Income Tax (PIT) revenue is \$1,450 million more than the Budget projection due to an increase in the estimate of 1997 PIT assessments, based on preliminary tax return processing information, and higher projected taxable income for the 1998 tax year.
- ◆ Revenue from the Government of Canada is down by \$593 million.
 - ◆ Canada Health and Social Transfer (CHST) payments are down by \$470 million due to a downward revision in Statistics Canada's population estimates for Ontario for the last ten years, which reduces Ontario's CHST entitlements, and lower cash entitlements resulting from the increased value of the PIT tax points.
 - ◆ Other Federal Revenue is \$123 million lower than the Budget forecast. The 1998 Budget revenue forecast included an anticipated \$125 million for ice storm compensation from the federal government. However, as all ice storm compensation (and expense) was reflected in the 1997-98 Public Accounts, both revenue and expense in 1998-99 are correspondingly reduced by the amounts charged to the previous year. This is partially offset by a \$2 million increase in other federal revenue for Network 2000 and the Public Libraries Network.
- ◆ Other Fees and Licences revenue increased by \$4 million to partially offset the expense increase for the Fish and Wildlife program.
- ◆ Sales and Rentals are down \$10 million due to lower revenue from property management activities.
- ◆ Miscellaneous revenue is down \$31 million from the first quarter. Revenue (and expense) for the Occupational Health and Safety Program are lower by \$35 million as the recovery of prior years' expenditures are now netted against expense, consistent with the treatment of such receipts in the 1997-98 Public Accounts. Partially offsetting this decrease is a \$4 million increase arising out of the new responsibilities of the Ontario Energy Board.

OPERATING EXPENSE

- ◆ Net operating expense, at \$55,433 million, is up \$806 million from the Budget Plan. Major changes totalling \$833 million this quarter are as follows:
 - ◆ Ministry of Agriculture, Food and Rural Affairs: An additional \$2 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
 - ◆ Ministry of the Attorney General: An additional \$1 million to establish the Office for Victims of Crime.
 - ◆ Ministry of Citizenship, Culture and Recreation: An additional \$4 million to plan and develop initiatives to commemorate the millennium throughout Ontario; and \$2 million for Network 2000 and Public Libraries Network.
 - ◆ Ministry of Community and Social Services: A reduction of \$20 million related to capital leases expensed in the Public Accounts in prior years and an additional \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
 - ◆ Ministry of Consumer and Commercial Relations: An additional \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.

ONTARIO FINANCES

DETAILS OF IN-YEAR CHANGES

OPERATING EXPENSE CONT'D

- ♦ Ministry of Education and Training: An additional expense of \$307 million for debt servicing costs for school board capital debentures reflecting a change in the Province's accounting treatment; an additional \$44 million for School Board Transition costs included as part of the overall provision for Restructuring and Other Charges; and an additional \$3 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ♦ Ministry of Energy, Science and Technology: An additional \$4 million to reflect the new responsibilities of the Ontario Energy Board, fully offset by revenue; and an additional \$1 million for the Science and Technology Division, fully offset from the Contingency Fund.
- ♦ Ministry of Environment: An additional \$12 million to launch the Drive Clean Program for the mandatory inspection of vehicle emissions to reduce smog; and \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ♦ Ministry of Finance: An increase of \$404 million, largely as a result of a \$400 million increase in the unallocated provision for Restructuring and Other Charges; as well as an additional \$2 million for necessary Year 2000 computer system changes and an additional \$2 million for the Integrated Financial Information System, both fully offset from the Contingency Fund.
- ♦ Ministry of Health: A net increase of \$234 million, including \$220 million for start-up and insurance costs for Canadian Blood Services and \$16 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ♦ Ministry of Labour: A reduction of \$35 million in the Occupational Health and Safety program as recoveries of prior years' expenditures are now netted against expense, consistent with the treatment in the Public Accounts.
- ♦ Management Board Secretariat: Increases of \$5 million for necessary Year 2000 computer system changes and \$2 million for the Regional Delivery Restructuring Project, both fully offset from the Contingency Fund. Consistent with the classification of restructuring charges in the 1997-98 Public Accounts, the Special Circumstances Fund of \$77 million has been reclassified as program spending. This reclassification will not affect the delivery of the Fund.
- ♦ Ministry of Municipal Affairs and Housing: A reduction of \$125 million in expense for last winter's ice storms in Eastern Ontario as these costs have been expensed in 1997-98; and an additional \$2 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ♦ Ministry of Natural Resources: An additional \$42 million for extra forest fire-fighting; \$6 million for the Fish and Wildlife program to ensure continued protection and management of Ontario's fish and wildlife resources; and a reduction of \$12 million related to capital leases expensed in the Public Accounts in prior years.
- ♦ Ministry of the Solicitor General and Correctional Services: An additional \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ♦ Ministry of Transportation: An additional \$1 million for Vehicle Emission Inspections under the Drive Clean Program; and an additional \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.

ONTARIO FINANCES

DETAILS OF IN-YEAR CHANGES

PUBLIC DEBT INTEREST

- ◆ Public Debt Interest is projected at \$9,161 million, down \$16 million from First Quarter Ontario Finances and down \$53 million from the Budget forecast. Interest cost savings resulting from lower-than-budgeted interest rates were partially offset by the cost of providing payments to school boards on behalf of municipalities to meet their obligations to school boards during the transition period to a new property tax system.

CAPITAL EXPENSE

- ◆ Capital expense at \$2,344 million is up \$7 million from the Budget Plan and down \$20 million from First Quarter Ontario Finances. Major changes this quarter are:
 - ◆ Ministry of the Attorney General: An additional \$1 million to implement six new child-friendly courts.
 - ◆ Ministry of Community and Social Services: An increase of \$3 million consistent with the treatment of capital leases in the Public Accounts.
 - ◆ Ministry of Municipal Affairs: A reduction of \$20 million in expense for last winter's ice storms in Eastern Ontario as these costs were expensed in 1997-98; and savings of \$13 million in the Canada-Ontario Infrastructure Works program due to faster-than-expected completion of projects, which was reflected in final 1997-98 expense.
 - ◆ Ministry of Natural Resources: An additional \$2 million for capital leases.
 - ◆ Ministry of Transportation: An additional \$7 million in transition funding for one-time grants to address unique local transportation requirements.

ONTARIO FINANCES

ECONOMIC PERFORMANCE

ONTARIO EMPLOYMENT GROWTH CONTINUES IN 1998

- ◆ During the first nine months of 1998, 195,000 jobs have been created in Ontario, compared to the same period last year.
- ◆ The unemployment rate in Ontario was 7.1% in September.

CONSUMER SPENDING ACCELERATES IN SECOND QUARTER

- ◆ Real personal consumption rose 2.3% in the second calendar quarter of 1998 (April-June), the strongest quarterly gain in 12 years.

GROWTH IN ECONOMIC OUTPUT MODERATES IN THE SECOND QUARTER OF 1998

- ◆ In the second calendar quarter of 1998 (April-June period), Ontario real GDP rose 0.8% at annual rates, following 5.8% growth in the first quarter. Labour disruptions in the U.S. auto sector and in the Ontario construction industry accounted for most of the slowdown in economic output.

HOUSING MARKET REMAINS BUOYANT

- ◆ Ontario home resales were up 4.8% in August from a year ago, while Toronto resales in September were 4.5% above year-earlier levels.
- ◆ Toronto-area new home sales are up 5.2% over the first nine months of 1998.

MANUFACTURING SHIPMENTS GROWING

- ◆ Over the first eight months of 1998, Ontario manufacturing shipments rose 3.5% from a year ago.
- ◆ Furniture shipments are up 25.0%, and electrical products shipments have risen 12.3% so far this year.

ONTARIO EXPORTS RISING IN 1998

- ◆ Over the first eight months of 1998, Ontario international merchandise exports increased 6.7% from a year ago.

ONTARIO INFLATION REMAINS LOW IN 1998

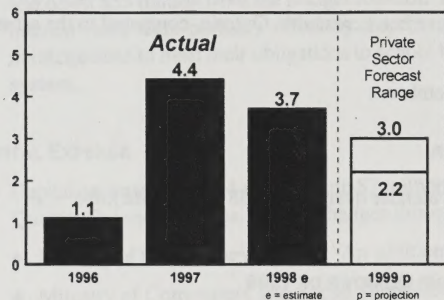
- ◆ Ontario's inflation rate as measured by the Consumer Price Index (CPI) was 0.8% in September (year-over-year).

ONTARIO FINANCES

SELECTED FISCAL INDICATORS

Continued Strong Growth Projected

Real GDP growth, average annual per cent

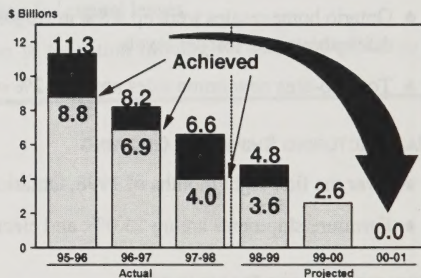


Sources: Statistics Canada, Ontario Ministry of Finance, Survey of Private-Sector Forecasts (October 1998)

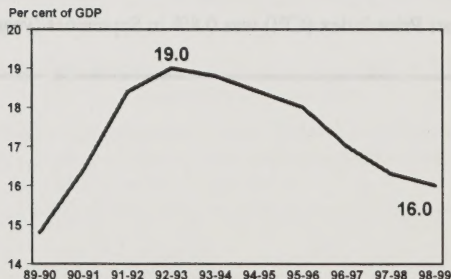
Consumer spending, business investment, housing and exports are all contributing to economic growth. Tax cuts, solid job creation and income gains are providing the basis for the sustained expansion. For 1998, the estimate for real GDP growth is at least 3.7 per cent. This is still a cautious and prudent estimate. On average, private-sector forecasters are expecting real economic growth of four per cent in Ontario this year.

In the fall of 1995 the Government set out its Balanced Budget Plan to eliminate the deficit by the year 2000-01. Ontario remains on track to meet the declining annual deficit targets outlined in the Plan. Based on actual results in the recently released Public Accounts, 1997-98 was the third year in a row that the deficit target has been overachieved. The 1998-99 Balanced Budget Plan deficit target of \$4.8 billion has been cut by \$1.2 billion and is forecast at \$3.6 billion, on track to overachieve for the fourth consecutive year.

Ontario's Balanced Budget Plan on Track



Spending as a Per Cent of GDP



Total spending as a per cent of Provincial GDP rose sharply in the early 1990s. From a peak of 19.0 per cent of GDP in 1992-93, Provincial spending as a share of the economy has been reduced to 16.0 per cent in 1998-99.

ONTARIO FINANCES

RECENT ECONOMIC DEVELOPMENTS

KEY ECONOMIC INDICATORS (% Change from previous period, unless indicated otherwise)

		Annual		Quarterly				
		1997	97:1	97:2	97:3	97:4	98:1	98:2
Output (Seasonally Adjusted Annual Rate)								
Real GDP	Ontario	4.4	7.0	6.3	7.0	3.0	5.8	0.8
Nominal GDP	Ontario	4.8	6.3	5.5	6.3	2.5	5.9	1.5

		Annual		Monthly 1998				
		1997	Apr	May	June	July	Aug	Sep
Other Indicators (Seasonally Adjusted)								
Labour Markets								
Labour Force (Change in 000s)	Ontario	76	11	9	(16)	1	(18)	64
Employment (Change in 000s)	Ontario	102	23	13	(14)	(3)	(18)	62
Private Sector	Ontario	130	(2)	2	(23)	5	(21)	64
Public Sector	Ontario	(28)	25	12	9	(8)	3	(2)
Unemployment Rate (%)	Ontario	8.5	7.2	7.1	7.1	7.2	7.2	7.1
Household Sector								
Retail Sales	Ontario	7.8	2.4	1.7	(2.3)	1.0	0.6	N/A
Urban Housing Starts (000s)	Ontario	50.0	52.4	49.1	46.1	38.9	48.5	47.7
New Home Sales*	Toronto	30.6	30.7	12.6	16.1	9.0	36.0	(8.4)
MLS Home Sales*	Ontario	1.9	(7.7)	4.2	11.1	4.2	4.8	N/A
Manufacturing Shipments								
Transportation Equipment	Ontario	8.1	(0.4)	(0.1)	(7.0)	(3.2)	12.3	N/A
Consumer Price Index: All Items	Ontario	12.7	(3.0)	0.2	(19.7)	(9.1)	37.4	N/A
		1.9	0.6	1.1	0.7	0.9	0.6	0.8

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, Toronto Real Estate Board, Canadian Real Estate Association, Ward's Automotive.

* % change from a year earlier

Continued Strong Growth Projected

KEY ECONOMIC INDICATORS

Indicator	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
GDP (Billions of Dollars)	100.0	95.0	90.0	85.0	80.0	75.0	70.0	65.0	60.0	55.0	50.0	45.0	40.0	35.0	30.0	25.0	20.0	15.0
Unemployment Rate (%)	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0
Interest Rate (%)	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0
Government Spending (Billions of Dollars)	30.0	32.0	34.0	36.0	38.0	40.0	42.0	44.0	46.0	48.0	50.0	52.0	54.0	56.0	58.0	60.0	62.0	64.0
Government Revenue (Billions of Dollars)	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0

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Spending as a Per Cent of GDP



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REVENUE

(\$ Millions)	Actual 1997-98	1998-99		
		Budget Plan	Current Outlook	In-Year Change
TAXATION REVENUE				
Personal Income Tax	16,293	14,635	16,085	1,450
Retail Sales Tax	10,843	11,435	11,435	--
Corporations Tax	7,456	7,600	7,600	--
Employer Health Tax	2,851	2,780	2,780	--
Gasoline Tax	2,028	2,045	2,045	--
Fuel Tax	563	600	600	--
Tobacco Tax	425	470	470	--
Land Transfer Tax	565	580	580	--
Mining Profits Tax	40	50	50	--
Race Tracks Tax	4	6	6	--
Preferred Share Dividends Tax	60	55	55	--
Other Taxation	73	190	190	--
	41,201	40,446	41,896	1,450
GOVERNMENT OF CANADA				
Canada Health and Social Transfer	3,970	3,950	3,480	(470)
Bilingualism Development	49	40	40	--
Young Offenders Act	59	59	59	--
Vocational Rehabilitation	53	46	46	--
Canada-Ontario Infrastructure Works	116	92	92	--
Social Housing	387	353	353	--
Other	464	388	265	(123)
	5,098	4,928	4,335	(593)
INCOME FROM GOVERNMENT ENTERPRISES				
Ontario Lottery Corporation	714	840	840	--
Liquor Control Board of Ontario	745	760	760	--
Ontario Casino Corporation	771	915	915	--
Other	61	(77)	(77)	--
	2,291	2,438	2,438	--
OTHER REVENUE				
Vehicle/Driver Registration Fees	820	915	915	--
Other Fees and Licences	616	570	574	4
Liquor Licence Board of Ontario Revenues	506	510	510	--
Royalties	286	265	265	--
Sales and Rentals	582	480	470	(10)
Fines and Penalties	174	40	40	--
Local Services Realignment - Reimbursement of Expenditure	519	2,261	2,261	--
Miscellaneous	395	537	510	(27)
	3,898	5,578	5,545	(33)
TOTAL REVENUE	52,488	53,390	54,214	824

OPERATING EXPENSE

(\$ Millions)		1998-99		
MINISTRY	Actual 1997-98	Budget Plan	Current Outlook	In-Year Change
Agriculture, Food and Rural Affairs	306	340	343	3
Farm Tax Rebate	158	--	--	--
Attorney General	680	733	735	2
Board of Internal Economy	113	121	121	--
Citizenship, Culture and Recreation	280	307	316	9
Community and Social Services	7,989	7,848	7,834	(14)
Consumer and Commercial Relations	92	133	136	3
Economic Development, Trade and Tourism	194	170	203	33
Education and Training	7,700	10,204	10,510	306
Teachers' Pension Plan	1,443	61	61	--
School Board Transition	224	117	161	44
Energy, Science and Technology	69	161	142	(19)
Environment	142	143	156	13
Executive Offices	14	19	19	--
Finance - Own Account	690	691	702	11
Public Debt Interest	8,729	9,214	9,161	(53)
Community Reinvestment Fund	169	677	677	--
Restructuring and Other Charges - Unallocated	--	--	400	400
Health	18,321	18,682	18,950	268
Health Care Restructuring	532	--	--	--
Intergovernmental Affairs	5	4	4	--
Labour	87	111	76	(35)
Management Board Secretariat	352	348	363	15
Public Service/OPSEU Pension Plan	(86)	(100)	(100)	--
Contingency Fund	--	830	680	(150)
OPS Employee Severance	(159)	--	--	--
Retroactive Pay Equity Payments	140	--	--	--
Special Circumstances Fund	--	77	77	--
Municipal Affairs and Housing	2,395	1,728	1,607	(121)
Municipal Capital and Operating Restructuring Fund	23	--	--	--
Municipal Restructuring Fund	71	--	--	--
Native Affairs Secretariat	10	9	10	1
Natural Resources	405	388	456	68
Northern Development and Mines	62	100	100	--
Office of Francophone Affairs	2	3	3	--
Office Responsible for Women's Issues	18	21	21	--
Solicitor General and Correctional Services	1,173	1,188	1,209	21
Transportation	709	499	500	1
Restructuring/Municipal Capital and Operating Restructuring Fund	50	--	--	--
TTC Five Year Capital Transfer	829	--	--	--
Year-end Savings	--	(200)	(200)	--
TOTAL OPERATING EXPENSE	53,931	54,627	55,433	806

CAPITAL EXPENSE

(\$ Millions)		1998-99		
MINISTRY	Actual 1997-98	Budget Plan	Current Outlook	In-Year Change
Agriculture, Food and Rural Affairs	1	3	3	—
Attorney General	47	91	92	1
Citizenship, Culture and Recreation	7	5	5	—
Community and Social Services	51	20	23	3
Economic Development, Trade and Tourism	3	-	-	—
Education and Training	380	379	379	—
Energy, Science and Technology	-	45	45	—
Environment	98	51	51	—
Municipal Capital and Operating Restructuring Fund	-	29	29	—
Finance	7	1	1	—
Health	106	471	471	—
Management Board Secretariat	80	10	10	—
Municipal Affairs and Housing	152	91	58	(33)
Native Affairs Secretariat	11	12	12	—
Natural Resources	209	29	29	—
Northern Development and Mines	173	179	179	—
Solicitor General and Correctional Services	12	72	73	1
Transportation	1,186	849	884	35
TOTAL CAPITAL EXPENSE	2,523	2,337	2,344	7

RESTRUCTURING AND OTHER CHARGES

(\$ Millions)	1998-99
1998-99 Budget Provision	194
Changes This Quarter	
Special Circumstances Fund: Reallocated to Programs	(77)
Increase in School Board Transition Costs	<u>44</u>
Net Changes	(33)
Increased Provision this Quarter	<u>400</u>
Total Restructuring and Other Charges	561
Allocation:	
School Board Transition Costs	161
Unallocated / Still to be Distributed	<u>400</u>
TOTAL	561

STATEMENT OF FINANCIAL TRANSACTIONS

(\$ Millions)	1998-99			
	Actual 1997-98	Budget Plan	Current Outlook	In-Year Change
Deficit	3,966	4,224	3,563	(661)
Cash Timing Adjustments	197	3,804	3,637	(167)
Net Cash Requirements	4,163	8,028	7,200	(828)
Maturing Debt	5,792	5,820	6,035	215
Borrowing on Behalf of Agencies	(128)	286	130	(156)
Total Financing Requirements	9,827	14,134	13,365	(769)
Financed by:				
Decrease in Liquid Reserves	267	3,040	3,040	--
Other Sources	(375)	(66)	(66)	--
Increase in Short-term Borrowing	(1,340)	1,984	1,215	(769)
Long-term Borrowing*	11,275	9,176	9,176	--
TOTAL FINANCING	9,827	14,134	13,365	(769)

* Including Ontario Savings Bonds

1998-99 FINANCING ACTIVITIES TO DATE

(\$ Millions)	Issued		
	(as of September 30)	Remaining	% Completed
LONG TERM FINANCING	6,721	2,455	73%

- ◆ Long-term financing undertaken in this quarter totalled \$2,706 million as follows:

	(\$ Million)
Canadian Domestic Market	1,268
U.S. Market	1,333
Japanese Market	105
	2,706

- ◆ Maturing debt was revised upward to reflect redemptions of Ontario Savings Bonds in June and September 1998.
- ◆ Borrowing on behalf of agencies was revised downward to reflect lower loan requirements and principal repayments by government agencies.
- ◆ The Province's total direct debt is forecast to be \$109.8 billion at March 31, 1999, up from \$105.5 billion at March 31, 1998.